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June 22, 1978

TO: CITY COUNCIL

FROM: NORMAN R. KING, CITY MANAGER

SUBJECT: PROPOSITION 13 AMENDMENTS TO THE PROPOSED 1978-79 BUDGET

The following schedules provide a summary of the effects of proposition 13 and the necessary changes to the original proposed 1978-79 budget. Most of these changes have previously received council consideration and in some cases have already been implemented.

At this point, it is becoming increasingly difficult to distinguish the forest from the trees. The text books on how to immediately reduce one's budget by 25 to 40 percent are yet to be written (although I presume they will now be authored and perhaps will become best sellers). Consequently, the staff is involved in a continuing process of attempting to portray an extremely complex situation in the clearest manner possible, and the council is in a continuing process of trying to make a series of complex and interrelated decisions in the face of a considerable amount of confusion and misinformation coming from Sacramento.

The basic premise of this memo is that, as in the past, it is appropriate for the council to continue to implement the proposition 13 reductions in a timely and deliberate manner, keeping irreversible decisions at a minimum, while at the same time proceeding to whittle down the budget deficit created by the proposition. I believe that after review of the attached information, the council may be in a position to adopt a tentative budget, albeit with many qualifications and unresolved issues which will require further council consideration.

In reviewing the attached material, I believe the following factors merit special emphasis:

1. The attached figures have been converted to 1978-79 dollars to make the reductions comparable to the proposed 1978-79 budget. Previous memoranda (April 18 and May 12) were prepared prior to the proposed budget and, therefore, were based upon 1977-78 data. Thus, inflation, normal growth, revised estimates, etc. account for many of the differences between 1977-78 figures used in the previous memos and the data presented in this memorandum based upon 1978-79 dollars.
2. As is noted, we anticipate that the total scope of service level reductions may be reduced by approximately \$150,000 to \$175,000 from that portrayed in the May 12 memorandum. In addition to Item 1 above, the reason for the decrease in the overall deficit is that I believe at this point the council can assume that the state legislature will mandate a proportional tax rate which will cause the city to realize approximately \$250,000 from property taxes<sup>1</sup> or approximately \$150,000 more than was previously assumed might be the case. As of this writing, the state legislature has not yet acted, but it would appear that there is general agreement that the proportional tax distribution is the best way to go.<sup>2</sup> In addition to the somewhat reduced property tax reduction the city council has adopted fees and revenues somewhat in excess of those listed in the May 12 memo, thus further reducing the scope of the total deficit.

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3. As of this writing, no assumption is made that Claremont will receive any state surplus funds. Although during the campaign, Governor Brown, several candidates for the Republican nomination, and many state politicians were adamant in claiming that the state would not replace lost revenue, it would appear that there is considerable support for some of the surplus to be returned to local governments. The question is: to whom? Although cities may get something, it would appear that priority is being given to school districts and some other special districts, and at this time, it would be unwise to make a budget decision which assumes reliance on any distribution of the state surplus. It should be pointed out that as a result of proposition 13 the state surplus will grow at an increased rate because proposition 8 will not be in effect (which would have distributed approximately \$1.5 billion of the surplus back to local governments) and because under proposition 13, the state's contribution to funding the homeowner's exemption will be reduced by an excess of one-half billion dollars per year.
4. The attached information would indicate that a reduction of the city work force by approximately 22 to 26 positions will be necessary. This will represent a decrease of approximately 22 percent from property tax related positions (presently authorized at 110 positions) or a 19 percent of the total city work force (presently 126 total city non-CETA positions). I should point out that relative to the proposed budget there will be a position reduction of approximately 34 positions, which is 34 positions less than I believe is necessary to continue to provide the existing level of services to our growing community.
5. At this time, I would recommend that no layoff notices be issued. In my opinion, it is quite possible, although not a certainty, that although significant position terminations will be implemented that no existing full-time personnel must be laid off. The basic reason for this is that there are presently approximately 13 vacancies in the city work force. Unlike many agencies, we slowed down the re-hiring process for many positions in advance of June 6. Thus, it would appear that with approximately one-half of the to-be-terminated positions now vacant that normal attrition may substantially, if not entirely, reduce the need to layoff existing full-time personnel.

The council has tentatively authorized that \$75,000 be set aside to provide at least a three-month layoff notice. The \$75,000 would carry 10 employees for approximately 6 months if necessary.

Obviously, attrition does not always occur in the right places and, therefore, after final service level reductions are determined by the city council, it may be necessary to review our layoff situation. But at this time, the situation does look hopeful for full-time personnel. After the council does determine all service level reductions, it may be necessary to reduce certain part-time personnel because of the possibility that attrition is not likely to occur in these positions.



6. I would recommend that particularly because actual layoffs are not now necessary that the city council defer final action on specific budget cutbacks until further deliberation in July. There does not seem to be a compelling reason to make final decisions immediately, particularly in light of ever-changing information from Sacramento and, consequently, it may be too early to have to identify all specific cutbacks. The fact that the council has already identified the basic parameters of the cutbacks that will be necessary should be very helpful to subsequent discussions.
7. Obviously, at the moment our primary attention is focused on how to implement proposition 13 changes with as little confusion and suffering as possible. However, we do not intend to lose track of the "other side" of proposition 13 which is to continue our review of all city operations for possible efficiency improvements. I have attached an excerpt from the original budget message for the 1978-79 budget relating to efficiency and cost-saving improvements, and hope that once the basic budget reduction decisions are made that we can renew our efforts in this area.
8. It is obvious that by adopting the attached "amendments" to the proposed 1978-79 budget that a considerable number of issues remain to be resolved and a detailed review of the 1978-79 budget must be undertaken prior to final adoption in late August or early September.
9. I hesitate to single out specific employees because a great many city employees have been working under tremendous pressure with an endless number of responsibilities as we both prepare for and implement the difficult process of phasing the proposition 13 reductions. However, I would like to especially commend Paul Brotzman and Ron Hagan. Ron Hagan has been particularly on the firing line as his is the first department to implement major changes and, therefore, has been the particular focus of those citizens who have been upset by the changes. Paul Brotzman has consistently performed the detailed and time-consuming task of costing out, analyzing, and portraying the cost implications of the proposition 13 reductions. Both have spent even more hours at city hall than is "normally" the case, and "normally" for them has been far in excess of 40 hours per week.
10. Refer to attached tables A, B, C and D.

Recommendation: I would like to make the following recommendations:

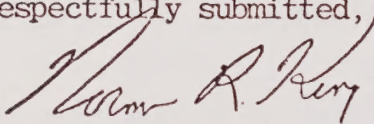
1. That the city council tentatively adopt the 1978-79 budget as amended by Tables A, B, C, D (attached) and the June 9, 1978, memorandum entitled "Potential 'One-Time' Funding of Proposition 13 Transition Costs".<sup>3</sup>
2. That the city council defer until July further decisions with regard to the precise allocation of the approximately \$610,000 of service level reductions and other cutbacks which appear to be necessary.



Recommendation (continued):

3. That unless specific action taken is by the city council all capital improvements program recommendations and equipment program recommendations listed in the proposed 1978-79 budget be frozen until council has reviewed these programs.
4. Authorize the city manager to notify city employees that it appears that in spite of a reduction of 22 to 26 positions that no direct layoffs of full-time employees will be necessary at this time and further authorize the city manager to being to implement the demotions and enforced transfers which may be necessary to implement council directed specific service level reductions.

Respectfully submitted,



Norman R. King  
City Manager

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attachments

- <sup>1</sup>This \$250,000 is a rough estimate and it will likely be weeks, if not months, before Los Angeles County Assessor's Office will be able to provide a more definitive figure. In Claremont's case these computations will be highly complex because of the annexation activity in the past three years and the substantial increase in residential construction. It is our understanding that the proportional tax rate would be calculated roughly as follows:
- A. Total assessed valuation for the City of Claremont would be calculated.
  - B. City of Claremont's percent of the total 1977-78 (or other year) tax rate would be calculated. This would appear to be approximately 11 percent.
  - C. The basic county-wide tax rate of \$4 per \$100 assessed valuation (as specified in proposition 13) would then be applied to the total Claremont assessed value and a total amount of property tax revenue calculated.
  - D. Claremont's share of the revenue generated in "C" would then be approximately 11 percent of the total.
- <sup>2</sup>I should note that in the long run it may be unlikely that the proportional tax rate will continue to be authorized. A proportional tax rate will cause residents of different parts of the county to pay differential amount of property

taxes to some jurisdictions, such as the county. Thus, Claremont residents, because of a previously higher than average tax rate, will pay less per dollar to the county of total taxes paid than will residents of Beverly Hills who have had previously a lower than average tax rate. This is because the previous county rate of \$4.50 will of course be a lower percentage of the total tax rate in Claremont and a higher percentage of the total tax rate in Beverly Hills. In any case, the \$250,000 for property taxes should not be considered a guarantee of future funding in similar amounts.

<sup>3</sup>Although the June 9 memo does not specify a specific amount of money to support the juvenile diversion and handicapped transportation program, it was the intent of the memorandum to indicate some, but as yet an undetermined, level of support for these programs.





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6/20/78

TABLE A

Summary of Revenue Changes  
for 1978-79 Proposed Budget

<u>Source</u>	<u>Proposed</u>	<u>Revised</u>	<u>Net Change</u>
Property Tax	1,466,000	250,000	(1,216,000)
Retail Sales	500,000	535,000	35,000
Trans. Occupancy	200,000	290,000	90,000
Business Licenses	100,000	160,000	60,000
Refuse Services	535,000	573,000	38,000
Street Sweeping	-0-	90,000	90,000
Transportation	11,000	14,000	3,000
Trust Funds	6,000	112,000	106,000
Los Angeles County Gas Tax	36,000	-0-	(36,000)
			<u>(830,000)</u>

6/20/78

TABLE B

Summary of Increased Cost Allocation to Special Funds

Increase allocation to grants	10,000
Transfer gas tax construction to maintenance	50,000
Increase allocation of building inspection fees	-0- <sup>1</sup>
Allocate gas tax funds for Admin.	20,000
Increase allocation of Admin. to HCD Grant	<u>5,000</u>
	85,000

<sup>1</sup>I would like to recommend one major change on the May 12 memorandum with regard to funding a portion of the community development department! That the city not depend upon "one-time" use of higher-than-normal building permit fees in the amount of \$100,000 to cover the existing level of the community development personnel. This change neither increases nor decreases the personnel allocation from the May 12 memo, but it will have the effect of eliminating a probable \$100,000 deficit situation that would face the city at the end of 1978-79 in preparing for the new budget year. If the level of building activity declines, it may well be appropriate to somewhat reduce the personnel level of the community development department. However, as building activity presently remains high, this review can take place at a later time.



6/20/78

TABLE C .

Summary of Program Reductions  
for 1978-79 Proposed Budget

			<u>Positions</u>	<u>Costs</u>
A.	Reduction of personnel to 1977-78 authorized levels		10	133,500
B.	Reduction of services and personnel from 1977-78 authorized levels (Update of Table B of May 12, 1978 memorandum)			
	1. Administration	2.5	55,000	
	2. Miscellaneous Services	N/A	57,000	
	3. Community Development	2	45,000	
	4. Police	6.5	122,850	
	5. Community Services	18.25	421,060	
	6. Human Services	<u>4.5</u>	<u>80,650</u>	
		33.75	781,500	
			<u>33.75</u>	<u>781,500</u>
	Total Reduction		43.75	915,000



6/20/78

TABLE D

Summary of Revenue and Expenditure Proposals

A. Total Revenue Reductions	(830,000)
B. Total Cost Reallocation	85,000
C. Total Proposed Program Reductions	<u>915,055</u>
	170,000
Net Reduction of Program Cuts	\$170,000 <sup>1</sup>

<sup>1</sup>The \$170,000 may be used to reduce the scope of the previously outlined expenditure reduction from \$781,500 to approximately \$611,000. If the \$170,000 were allocated to services or programs which are primarily dependent upon city employees (as opposed to contracted services, equipment, etc.), it is estimated that 9 to 12 fewer positions would need to be terminated than was estimated in the May 12 memorandum. This would mean that the total number of position terminations (from the 1977-78 level) would be approximately 22 to 26 positions. There are presently approximately 13 vacancies in the city work force.



## Economies in Government

Fiscally, Claremont has been a marginal city and has been rightly accused of trying to do too many things with too little. Though often frustrating and occasionally dangerous, such an environment has encouraged more frugal spending habits than exist in most other more affluent cities. During the past year, considerable effort has gone into reducing the cost of providing city services. Some of our accomplishments include:

1. A savings of approximately \$3,100 by reducing water consumption in calendar year 1977 by 30 percent;
2. A savings which will average \$2,000 per year by purchasing a city-owned telephone system;
3. A savings of approximately \$4,500 per year by purchasing the two Xerox machines;
4. The provision of refuse collection service to approximately 800 new homes without adding additional personnel;
5. The increased allocation for street maintenance, especially slurry seal, which will reduce future street maintenance costs;
6. The continuation of our participation in the municipal data system which has continued to keep computer costs at approximately \$1 per capita, far below the national average;
7. The reorganization of various city services including the establishment of the community services department, the human services department, and the consolidated community development department which has resulted in more efficient implementation of city services;
8. The savings of approximately \$50,000 per year after an analysis of the Claremont worker's compensation program indicated that it would be in the city's interest to adopt a limited form of self insurance through a retrospective rating plan;
9. The participation in the Southern California insurance joint powers authority which resulted in a savings of approximately \$50,000 in 1977-78 for liability insurance.
10. A high level of volunteer activity in various city program (for instance, the human services department estimates that 13,000 volunteer hours were contributed to city events in the past year);
11. The gradual implementation of work standards in the community services department and the development of a programmed approach to maintenance of city facilities including grounds, buildings, landscaping, streets, etc.



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One of the ironies of proposition 13 is that because it would cause such a massive reduction of services, it would also limit resources that could be available to continue analysis of further cost reductions and ways to more efficiently provide services.

There are ways of reducing city costs which need not take a proposition 13 to implement. Two of the most promising are as follows:

1. The Harvey Mudd College engineering clinic will shortly issue its final report, which will make recommendations regarding various improvements the city can make which will reduce future energy costs. For instance, if 183 city-owned street lights were converted to high pressure sodium vapor at the initial cost of \$15,000, it is anticipated that the annual savings would be over \$3,000.
2. A second opportunity exists with the recently formed (and very unofficial) Pomona Valley consortium which through the efforts of the city managers and staffs of nine cities in the Pomona Valley (Chino, La Verne, Montclair, Ontario, Pomona, Rancho Cucamonga, San Dimas, Upland, and Claremont) will work jointly to develop cost-saving methods to analyze management systems and to implement productivity programs. Paul Brotzman originated this concept. It is felt that by approaching the issue of productivity through collective action that each city will not have to "reinvent the wheel" and that we can develop a common data base which could be used for comparability purposes. In that many of the cities presently contract with MDS, further cost savings might occur by participating in the development of joint software should that need arise.

In any case, I believe that the city of Claremont is presently adequately staffed to investigate further opportunities for cost reductions in the city's services.<sup>1</sup> As we move more toward a "steady state" local economy in which Claremont will find its rate of growth first begin to slow and then stabilize, it will become increasingly important for the city to devote resources to analyzing and implementing ways in which the cost of providing services can be further reduced. In some sense the growth economy of the past two or three years makes the budgeting problem easier. However, many of the economic advantages of growth are illusionary, and the real challenges and opportunities may exist in figuring out how the city can continue to improve once the limits of growth have been reached.

<sup>1</sup> This will no longer be true once all Proposition 13 related cutbacks are implemented.

(Footnote added June 21, 1978.)

